CANCER GENETICS, INC
Form 10-Q
November 09, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2016
Or

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number 001-35817

CANCER GENETICS, INC.
(Exact name of registrant as specified in its charter)

Delaware	04-3462475
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

201 Route 17 North 2nd Floor
Rutherford, NJ 07070
(201) 528-9200
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨ Accelerated filer ¨

Non-accelerated filer ¨ (Do not check if a smaller reporting company) Smaller reporting company x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No ý

As of November 1, 2016, there were 18,887,594 shares of common stock, par value $0.0001 of Cancer Genetics, Inc. outstanding.

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PART I — FINANCIAL INFORMATION
Item 1. Financial Statements (Unaudited)
Cancer Genetics, Inc. and Subsidiaries
Consolidated Balance Sheets (Unaudited)
(in thousands, except par value)

	September 30, 2016	December 31, 2015
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 10,716	$ 19,459
Accounts receivable, net of allowance for doubtful accounts	13,679	6,621
Other current assets	2,185	2,118
Total current assets	26,580	28,198
FIXED ASSETS, net of accumulated depreciation	4,912	6,069
OTHER ASSETS		
Restricted cash	300	300
Patents and other intangible assets, net of accumulated amortization	1,594	1,727
Investment in joint venture	296	341
Goodwill	12,029	12,029
Other	112	220
Total other assets	14,331	14,617
Total Assets	$ 45,823	$ 48,884
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 8,341	$ 7,579
Obligations under capital leases, current portion	69	122
Deferred revenue	210	831
Bank term note, current portion	2,000	1,333
Total current liabilities	10,620	9,865
Obligations under capital leases	228	276
Deferred rent payable and other	299	315
Warrant liability	2,814	17
Deferred revenue, long-term	864	752
Bank term note	3,151	4,642
Total Liabilities	17,976	15,867
STOCKHOLDERS' EQUITY		
Preferred stock, authorized 9,764 shares, $0.0001 par value, none issued	—	—
Common stock, authorized 100,000 shares, $0.0001 par value, 18,870 and 13,652 shares issued and outstanding at September 30, 2016 and December 31, 2015, respectively	2	1
Additional paid-in capital	139,023	131,167
Accumulated (deficit)	(111,178)	(98,151)
Total Stockholders' Equity	27,847	33,017
Total Liabilities and Stockholders' Equity	$ 45,823	$ 48,884

See Notes to Unaudited Consolidated Financial Statements.

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Cancer Genetics, Inc. and Subsidiaries
Consolidated Statements of Operations (Unaudited)
(in thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Revenue	$6,750	$4,001	$19,819	$12,556
Cost of revenues	4,444	3,103	12,832	9,342
Gross profit	2,306	898	6,987	3,214
Operating expenses:				
Research and development	1,594	1,802	4,806	4,335
General and administrative	3,701	3,487	11,677	9,536
Sales and marketing	1,054	1,243	3,731	3,543
Total operating expenses	6,349	6,532	20,214	17,414
Loss from operations	(4,043)	(5,634)	(13,227)	(14,200)
Other income (expense):				
Interest expense	(111)	(112)	(344)	(227)
Interest income	4	5	21	30
Change in fair value of acquisition note payable	18	315	119	(91)
Change in fair value of warrant liability	712	214	729	18
Other expense	(325)	—	(325)	—
Total other (expense)	298	422	200	(270)
Net (loss)	$(3,745)	$(5,212)	$(13,027)	$(14,470)
Basic Net (Loss) Per Share	$(0.23)	$(0.54)	$(0.88)	$(1.49)
Diluted Net (Loss) Per Share	$(0.23)	$(0.56)	$(0.88)	$(1.49)
Basic Weighted-Average Shares Outstanding	16,519	9,726	14,868	9,715
Diluted Weighted-Average Shares Outstanding	16,519	9,728	14,868	9,716

See Notes to Unaudited Consolidated Financial Statements.

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Cancer Genetics, Inc. and Subsidiaries
Consolidated Statements of Cash Flows (Unaudited)
(in thousands)

	Nine Months Ended September 30,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (loss)	$(13,027)	$(14,470)
Adjustments to reconcile net (loss) to net cash (used in) operating activities:		
Depreciation	1,502	971
Amortization	260	26
Provision for bad debts	8	213
Stock-based compensation	1,538	2,178
Change in fair value of acquisition note payable	(119)	91
Change in fair value of Gentris contingent consideration	—	(162)
Change in fair value of warrant liability	(729)	(18)
Amortization of debt issuance costs	9	5
Loss in equity method investment	45	748
Changes in:		
Accounts receivable	(7,066)	(349)
Other current assets	(67)	(368)
Other non-current assets	(9)	(86)
Accounts payable, accrued expenses and deferred revenue	372	1,330
Deferred rent payable and other	(16)	(59)
Net cash (used in) operating activities	(17,299)	(9,950)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(345)	(440)
Decrease in restricted cash	—	6,000
Patent costs	(127)	(109)
Deposit for acquisition of Response Genetics	—	(880)
Net cash provided by (used in) investing activities	(472)	4,571
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on capital lease obligations	(101)	(44)
Payments for deferred equity offering costs	—	(237)
Proceeds from option exercises	—	23
Proceeds from offerings of common stock with derivative warrants, net of certain offering costs	9,962	34
Principal payments on bank term note	(833)	—
Payment of debt issuance costs	—	(33)
Net cash provided by (used in) financing activities	9,028	(257)
Net (decrease) in cash and cash equivalents	(8,743)	(5,636)
CASH AND CASH EQUIVALENTS		
Beginning	19,459	25,554
Ending	$10,716	$19,918
SUPPLEMENTAL CASH FLOW DISCLOSURE		
Cash paid for interest	$250	$158

See Notes to Unaudited Consolidated Financial Statements.

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Notes to Unaudited Consolidated Financial Statements

Note 1. Organization, Description of Business, Basis of Presentation, Acquisitions and Recent Accounting Pronouncements

We are an emerging leader in the field of personalized medicine, enabling precision medicine in the field of oncology through our diagnostic products and services and molecular markers. We develop, commercialize and provide molecular- and biomarker-based tests and services that enable physicians to personalize the clinical management of each individual patient by providing genomic information to better diagnose, monitor and inform cancer treatment and that enable biopharmaceutical companies engaged in oncology trials to better select candidate populations and reduce adverse drug reactions by providing information regarding genomic factors influencing subject responses to therapeutics. We have a comprehensive, disease-focused oncology testing portfolio. Our tests and techniques target a wide range of cancers, covering eight of the top ten cancers in prevalence in the United States, with additional unique capabilities offered by our Tissue of Origin® test for identifying difficult to diagnose tumor types or poorly differentiated metastatic disease.

We were incorporated in the State of Delaware on April 8, 1999 and have offices and state-of-the-art laboratories located in California, New Jersey, North Carolina, Shanghai (China), and Hyderabad (India). Our laboratories comply with the highest regulatory standards as appropriate for the services they deliver including CLIA, CAP, NY State, California State and NABL (India). Our services are built on a foundation of world-class scientific knowledge and intellectual property in solid and blood-borne cancers, as well as strong academic relationships with major cancer centers such as Memorial Sloan-Kettering, Mayo Clinic, and the National Cancer Institute.

Basis of Presentation

The accompanying unaudited condensed financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and with the instructions for interim reporting as prescribed by the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary to make the financial statements not misleading have been included. As such, the information included in this quarterly report on Form 10-Q should be read in conjunction with the audited consolidated financial statements as of and for the year ended December 31, 2015, filed with the Securities and Exchange Commission on March 10, 2016. The consolidated balance sheet as of December 31, 2015, included herein was derived from the audited financial statements as of that date, but does not include all disclosures including notes required by GAAP. Interim financial results are not necessarily indicative of the results that may be expected for any future interim period or for the year ending December 31, 2016.

Liquidity and Going Concern

We believe that our current cash will support operations for at least the next 6 to 9 months. We are exploring opportunities for additional equity or debt financing, and we are taking steps to improve our operating cash flow. We can provide no assurances that our current actions will be successful or that any additional sources of financing will be available to us on favorable terms, if at all, when needed. Our forecast of the period of time through which our current financial resources will be adequate to support our operations and the costs to support our general and administrative, sales and marketing and research and development activities are forward-looking statements and involve risks and uncertainties.

The continuation of the Company as a going concern is dependent on the ability of the Company to obtain necessary debt and/or equity financing to continue operations. These interim consolidated financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

Acquisition of Response Genetics, Inc.

On October 9, 2015, we acquired substantially all the assets and assumed certain liabilities of Response Genetics, Inc. (“Response Genetics”), with its principal place of business in California, in a transaction valued at approximately $12.9 million, comprised of $7.5 million in cash and 788,584 shares of the Company’s common stock, with the common stock being valued at $5.4 million.

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The results of operations for the three and nine months ended September 30, 2016 include the operations of Response Genetics, which accounted for approximately $2,003,000 and $6,210,000 of the Company's consolidated revenue, respectively. The net loss of Response Genetics cannot be determined, as its operations are integrated with Cancer Genetics.

2016 Offerings

May Offering

On May 25, 2016, we sold 2,467,820 shares of common stock in a public offering and warrants to purchase 1,233,910 shares of common stock in a concurrent private placement. These offerings resulted in gross proceeds of $5 million. We sold 2,150,000 shares of common stock and warrants to purchase 1,075,000 shares of common stock to certain institutional investors at a combined offering price of $2.00 per common share, and our Chairman of the Board, John Pappajohn, purchased 317,820 shares of common stock and warrants to purchase 158,910 shares of common stock at a combined offering price of $2.2025 per common share. In addition, we issued warrants to purchase an aggregate of 123,391 shares of common stock to the placement agent. Subject to certain ownership limitations, the warrants will be initially exercisable commencing six months from the issuance date at an exercise price equal to $2.25 per share of common stock. The warrants are exercisable for five years from the initial exercise date. All references to the sales of common stock and warrants mentioned in this paragraph are referred to as the "May Offering."

September Offering

On September 14, 2016, we sold 2,750,000 shares of common stock in a public offering and warrants to purchase 1,375,000 shares of common stock in a concurrent private placement at a combined price of $2.00 per common share. These offerings resulted in gross proceeds of $5.5 million. In addition, we issued warrants to purchase an aggregate of 137,500 shares of common stock to the placement agent. Subject to certain ownership restrictions, the warrants will be initially exercisable six months from the issuance date at an exercise price of $2.25 per share of common stock. The warrants are exercisable for five years from the initial exercise date. All references to the sales of common stock and warrants mentioned in this paragraph are referred to as the "September Offering," and collectively with the May Offering, the "2016 Offerings."

Recent Accounting Pronouncements

In March 2016, the FASB issued ASU 2016-09 "Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting." This standard requires the recognition of the income tax effects of awards in the income statement when the awards vest or are settled, thus eliminating additional paid in capital pools. The guidance also allows for the employer to repurchase more of an employee's shares for tax withholding purposes without triggering liability accounting. In addition, the guidance allows for a policy election to account for forfeitures as they occur rather than on an estimated basis. The guidance is effective in 2017 with early adoption permitted. The Company is currently evaluating the impact of this guidance on its consolidated financial statements and the timing of adoption.

Note 2. Revenue and Accounts Receivable

Revenue by service type for the three and nine months ended September 30, 2016 and 2015 is comprised of the following (in thousands):

	Three Months Ended September 30,	Nine Months Ended September 30,

	2016	2015	2016	2015
Biopharma Services	$3,805	$2,608	11,374	$8,614
Clinical Services	2,687	1,150	7,685	3,274
Discovery Services	258	243	760	668
	$6,750	$4,001	$19,819	$12,556

The table above includes approximately $522,000 of biopharma revenue and approximately $1,481,000 of clinical services revenue from our acquisition of Response Genetics for the three months ended September 30, 2016. The table above includes approximately $1,600,000 of biopharma revenue and approximately $4,610,000 of clinical services revenue from our acquisition of Response Genetics for the nine months ended September 30, 2016.

Accounts receivable by service type at September 30, 2016 and December 31, 2015 consists of the following (in thousands):

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	September 30, 2016	December 31, 2015
Biopharma Services	$ 5,369	$ 3,238
Clinical Services	8,607	3,733
Discovery Services	375	314
Allowance for doubtful accounts	(672)	(664)
	$ 13,679	$ 6,621

Allowance for Doubtful Accounts (in thousands)	
Balance, December 31, 2015	$664
Bad debt expense	8
Balance, September 30, 2016	$672

Revenue for Biopharma Services are customized solutions for patient stratification and treatment selection through an extensive suite of DNA-based testing services. Clinical Services are tests performed to provide information on diagnosis, prognosis and theranosis of cancers to guide patient management. These tests can be billed to Medicare, another third party insurer or the referring community hospital or other healthcare facility. Discovery Services are services that provide the tools and testing methods for companies and researchers seeking to identify new DNA-based biomarkers for disease. The breakdown of our Clinical Services revenue (as a percent of total revenue) is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Medicare	14%	12%	13%	8%
Other insurers	21%	7%	20%	7%
Other healthcare facilities	5%	9%	6%	8%
	40%	28%	39%	23%

We have historically derived a significant portion of our revenue from a limited number of test ordering sites. Test ordering sites account for all of our Clinical Services and Biopharma Services revenue. Our test ordering sites are largely hospitals, cancer centers, reference laboratories, physician offices and biopharmaceutical companies. Oncologists and pathologists at these sites order the tests on behalf of the needs of their oncology patients or as part of a clinical trial sponsored by a biopharmaceutical company in which the patient is being enrolled. We generally do not have formal, long-term written agreements with such test ordering sites, and, as a result, we may lose a significant test ordering site at any time.

The top five test ordering sites during the three months ended September 30, 2016 and 2015 accounted for 39% and 59%, respectively, of our testing volumes, with 6% and 27%, respectively, of the volume coming from community hospitals. During the three months ended September 30, 2016, there was one biopharmaceutical company which accounted for approximately 18% of our total revenue. During the three months ended September 30, 2015, there were two biopharmaceutical companies which accounted for approximately 15% and 11% of our total revenue, respectively.

The top five test ordering sites during the nine months ended September 30, 2016 and 2015 accounted for 31% and 80% respectively, of our testing volumes, with 7% and 31%, respectively, of the volume coming from community hospitals. During the nine months ended September 30, 2016, there was one biopharmaceutical company which accounted for approximately 10% of our total revenue. During the nine months ended September 30, 2015, there were

two biopharmaceutical companies which accounted for approximately 23% and 11% of our total revenue, respectively.

Note 3. Earnings Per Share

For purposes of this calculation, stock warrants, outstanding stock options and unvested restricted shares are considered common stock equivalents using the treasury stock method, and are the only such equivalents outstanding. For the three and nine months ended September 30, 2016, all common stock equivalents outstanding were anti-dilutive.

The following table summarizes equivalent units outstanding that were excluded from the earnings per share calculation because their effects were anti-dilutive (in thousands):

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Common stock purchase warrants	7,145	1,042	7,145	1,042
Stock options	2,128	2,008	2,128	2,008
Restricted shares of common stock	73	132	73	132
	9,346	3,182	9,346	3,182

Note 4. Lease Commitments

We lease our laboratory, research facility and administrative office space under various operating leases. In June 2016, we amended the lease for our Los Angeles, California location. The term of the updated lease is 18 months, expires December 31, 2017, requires monthly payments of approximately $54,000 and reduces our facilities in this location to 19,100 square feet.

Minimum future lease payments under all capital and operating leases as of September 30, 2016 are as follows (in thousands):

	Capital Leases	Operating Leases	Total
2016 (remaining 3 months)	$ 24	$ 396	$420
2017	78	1,589	$1,667
2018	75	397	$472
2019	70	342	$412
2020	59	135	$194
Thereafter	25	—	$25
Total minimum lease payments	331	$ 2,859	$3,190
Less amount representing interest	34		
Present value of net minimum obligations	297		
Less current obligation under capital lease	69		
Long-term obligation under capital lease	$ 228		

Note 5. Bank Term Note and Line of Credit

On May 7, 2015, we entered into a debt financing facility with Silicon Valley Bank (“SVB”). The SVB credit facility provides for a $6.0 million term note (“Term Note”) and a revolving line of credit (“Line of Credit”) for an amount not to exceed the lesser of (i) $4.0 million or (ii) an amount equal to 80% of eligible accounts receivable. The Term Note requires interest-only payments through April 30, 2016 and beginning May 1, 2016, monthly principal payments of approximately $167,000 will be required plus interest through maturity on April 1, 2019. The interest rate of the Term Note is the Wall Street Journal prime rate plus 2%, with a floor of 5.25% (5.50% at September 30, 2016) and an additional deferred interest payment of $180,000 will be due upon maturity. The Line of Credit requires monthly interest-only payments of the Wall Street Journal prime rate plus 1.5% (5.00% at September 30, 2016) and matures on May 7, 2017. The loan agreement requires maintenance of certain financial ratios and grants SVB a first security interest in substantially all Company assets (other than our intellectual property). At September 30, 2016 the principal balance of the Term Note was approximately $5,167,000 and the principal balance of the Line of Credit was $0. On January 28, 2016, the Line of Credit was amended with SVB and we are no longer able to draw on the Line of Credit until we raise approximately $2.5 million of additional equity.

The following is a summary of long-term debt (in thousands):

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	September 30, 2016	December 31, 2015
Term Note, principal balance	$ 5,167	$ 6,000
Less unamortized debt issuance costs	16	25
Term Note, net	5,151	5,975
Less current maturities	2,000	1,333
Long-term portion	$ 3,151	$ 4,642

Principal maturities of the Term Note as of September 30, 2016 are as follows: 2016 (remaining three months) - $500,000; 2017 - $2,000,000; 2018 - $2,000,000; 2019 - $666,667.

Note 6. Capital Stock

2016 Offerings

May Offering

On May 25, 2016, we sold 2,467,820 shares of common stock in a public offering and warrants to purchase 1,233,910 shares of common stock in a concurrent private placement. These offerings resulted in gross proceeds of $5 million. We sold 2,150,000 shares of common stock and warrants to purchase 1,075,000 shares of common stock to certain institutional investors at a combined offering price of $2.00 per common share, and our Chairman of the Board, John Pappajohn, purchased 317,820 shares of common stock and warrants to purchase 158,910 shares of common stock at a combined offering price of $2.2025 per common share. In addition, we issued warrants to purchase an aggregate of 123,391 shares of common stock to the placement agent. Subject to certain ownership limitations, the warrants will be initially exercisable commencing six months from the issuance date at an exercise price equal to $2.25 per share of common stock. The warrants are exercisable for five years from the initial exercise date.

September Offering

On September 14, 2016, we sold 2,750,000 shares of common stock in a public offering and warrants to purchase 1,375,000 shares of common stock in a concurrent private placement at a combined price of $2.00 per common share. These offerings resulted in gross proceeds of $5.5 million. In addition, we issued warrants to purchase an aggregate of 137,500 shares of common stock to the placement agent. Subject to certain ownership restrictions, the warrants will be initially exercisable six months from the issuance date at an exercise price of $2.25 per share of common stock. The warrants are exercisable for five years from the initial exercise date.

Note 7. Stock-Based Compensation

We have two equity incentive plans: the 2008 Stock Option Plan (the “2008 Plan”) and the 2011 Equity Incentive Plan (the “2011 Plan”, and together with the 2008 Plan, the “Stock Option Plans”). The Stock Option Plans are meant to provide additional incentive to officers, employees and consultants to remain in our employment. Options granted are generally exercisable for up to 10 years. On October 11, 2016, the stockholders voted to amend the 2011 Plan and increase the number of shares reserved by the 2011 Plan to 3,150,000 shares of common stock.

At September 30, 2016, 686,897 shares remain available for future awards under the 2011 Plan (not including the effects of the October 11, 2016 amendment to the 2011 Plan) and 112,055 shares remain available for future awards under the 2008 Plan. As of September 30, 2016, no stock appreciation rights and 275,500 shares of restricted stock have been awarded under the Stock Option Plans.

A summary of employee and non-employee stock option activity for the nine months ended September 30, 2016 is as follows:

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	Options Outstanding Number of Shares (in thousands)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding January 1, 2016	1,961	$ 10.55	7.68	$ —
Granted	304	2.01		
Cancelled or expired	(137)	8.78		
Outstanding September 30, 2016	2,128	$ 9.44	7.18	$ —
Exercisable September 30, 2016	1,250	$ 10.35	6.24	$ —

In October 2016, the Company granted employees incentive stock options to purchase 43,000 shares of the Company's common stock at a weighted-average exercise price of $1.70 per share.

On October 11, 2016 the Company granted its non-employee directors 2,500 restricted shares each of the Company's common stock and options to purchase an aggregate of 10,000 shares each of the Company's common stock as compensation for serving on the Board of Directors.

Aggregate intrinsic value represents the difference between the estimated fair value of our common stock and the exercise price of outstanding, in-the-money options.

As of September 30, 2016, total unrecognized compensation cost related to non-vested stock options granted to employees was $3,346,608 which we expect to recognize over the next 2.47 years.

As of September 30, 2016, total unrecognized compensation cost related to non-vested stock options granted to non-employees was $35,625 which we expect to recognize over the next 1.25 years. The estimate of unrecognized non-employee compensation is based on the fair value of the non-vested options as of September 30, 2016.

The fair value of options granted to employees is estimated on the grant date using the Black-Scholes option valuation model. This valuation model requires us to make assumptions and judgments about the variables used in the calculation, including the expected term (the period of time that the options granted are expected to be outstanding), the volatility of our common stock, a risk-free interest rate, and expected dividends. To the extent actual forfeitures differ from the estimates, the difference will be recorded as a cumulative adjustment in the period estimates are revised. No compensation cost is recorded for options that do not vest. We use the simplified calculation of expected life described in the SEC's Staff Accounting Bulletin No. 107, Share-Based Payment, and volatility is based on an average of the historical volatilities of the common stock of three entities with characteristics similar to those of the Company. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant for periods corresponding with the expected life of the option. We use an expected dividend yield of zero, as we do not anticipate paying any dividends in the foreseeable future. Expected forfeitures are assumed to be zero due to the small number of plan participants and the plan design which has monthly vesting after an initial cliff vesting period.

The following table presents the weighted-average assumptions used to estimate the fair value of options granted to employees during the periods presented:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Volatility	74.30%	55.71%	74.30%	61.16%

Risk free interest rate	1.17	%	1.63	%	1.17	%	1.65	%
Dividend yield	0.00	%	0.00	%	0.00	%	0.00	%
Term (years)	5.92		6.16		5.92		6.15	
Weighted-average fair value of options granted during the period	1.30		5.41		1.30		5.65	

In May 2014, we issued 200,000 options to our Director, Raju Chaganti, with an exercise price of $15.89. See Note 12 for additional information. The following table presents the weighted-average assumptions used to estimate the fair value of options reaching their measurement date for non-employees during the periods presented:

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Volatility	72.97%	69.56%	74.50%	69.97%
Risk free interest rate	1.46 %	2.02 %	1.43 %	2.11 %
Dividend yield	0.00 %	0.00 %	0.00 %	0.00 %
Term (years)	7.64	8.58	7.89	8.84

Restricted stock awards have been granted to employees, directors and consultants as compensation for services. At September 30, 2016, there was $444,329 of unrecognized compensation cost related to non-vested restricted stock granted to employees; we expect to recognize the cost over 1.95 years.

The following table summarizes the activities for our non-vested restricted stock awards for the nine months ended September 30, 2016:

	Non-vested Restricted Stock Awards	
	Number of Shares (in thousands)	Weighted-Average Grant Date Fair Value
Non-vested at January 1, 2016	121	$ 8.25
Vested	(46)	9.43
Cancelled	(2)	$ 9.02
Non-vested at September 30, 2016	73	$ 7.49

The following table presents the effects of stock-based compensation related to stock option and restricted stock awards to employees and non-employees on our Consolidated Statements of Operations during the periods presented (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Cost of revenues	$83	$59	$219	$163
Research and development	45	93	140	316
General and administrative	356	530	1,095	1,586
Sales and marketing	30	42	84	113
Total stock-based compensation	$514	$724	$1,538	$2,178

Note 8. Warrants

On May 25, 2016, we issued 1,357,301 warrants to purchase shares of our common stock as part of our May Offering. Subject to certain ownership limitations, the warrants will be initially exercisable commencing six months from the issuance date at an exercise price equal to $2.25 per share of common stock. The warrants are exercisable for five years from the initial exercise date. These warrants contain a contingent net cash settlement feature and are described as derivative warrants.

On September 14, 2016, we issued 1,512,500 warrants to purchase shares of our common stock as part of our September Offering. Subject to certain ownership limitations, the warrants will be initially exercisable commencing six months from the issuance date at an exercise price equal to $2.25 per share of common stock. The warrants are exercisable for five years from the initial exercise date. These warrants also contain a contingent net cash settlement feature and are described as derivative warrants.

During the three and nine months ended September 30, 2016, we expensed $325,000 of offering costs associated with the derivative warrants issued in the 2016 Offerings. These costs are included in other expense on the Consolidated Statements of Operations.

The following table summarizes the warrant activity for the nine months ended September 30, 2016 (in thousands, except exercise price):

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Issued With / For	Exercise Price	Warrants Outstanding January 1, 2016	2016 Warrants Issued	2016 Warrants Expired	Warrants Outstanding September 30, 2016
Non-Derivative Warrants:					
Financing	$ 10.00	243	—	—	243
Financing	15.00	436	—	—	436
Debt guarantee	15.00	233	—	(87)	146
Consulting	10.00	10	—	(10)	—
2015 Offering	5.00	3,450	—	—	3,450
Total non-derivative warrants	$ 6.65	C 4,372	—	(97)	4,275
Derivative Warrants:					
Financing	4.00	A 60	—	(60)	—
2016 Offerings	2.25	B —	2,870	—	2,870
Total derivative warrants	2.25	C 60	2,870	(60)	2,870
Total	$ 4.88	C 4,432	2,870	(157)	7,145

A These warrants were subject to fair value accounting and contained an exercise price adjustment feature.
B These warrants are subject to fair value accounting and contain a contingent net cash settlement feature.
C Weighted-average exercise prices are as of September 30, 2016.

Note 9. Fair Value of Warrants

The following table summarizes the derivative warrant activity subject to fair value accounting for the nine months ended September 30, 2016 (in thousands):

Issued with/for	Fair value of warrants outstanding as of December 31, 2015	Fair value of warrants issued	Change in fair value of warrants	Fair value of warrants outstanding as of September 30, 2016
Financing	$ 17	$ —	$ (17)	$ —
2016 Offerings	—	3,526	(712)	2,814
	$ 17	$ 3,526	$ (729)	$ 2,814

The following tables summarize the assumptions used in computing the fair value of derivative warrants subject to fair value accounting at the date of issue or exercise during the three and nine months ended September 30, 2016 and 2015, and at September 30, 2016 and December 31, 2015.

Issued with 2016 Offerings	Issued During the Three Months Ended September 30, 2016	Issued During the Nine Months Ended September 30, 2016	As of September 30, 2016
Exercise price	$ 2.25	$ 2.25	$ 2.25
Expected life (years)	5.50	5.50	5.31
Expected volatility	73.28 %	74.36 %	72.97 %
Risk-free interest rate	1.21 %	1.30 %	1.14 %
Expected dividend yield	— %	— %	— %

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Financing	As of December 31, 2015	
Exercise price	$ 4.00	
Expected life (years)	0.23	
Expected volatility	70.82	%
Risk-free interest rate	0.16	%
Expected dividend yield	—	%

Note 10. Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The Fair Value Measurements and Disclosures Topic of the FASB Accounting Standards Codification requires the use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect our own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. In that regard, the Topic establishes a fair value hierarchy for valuation inputs that give the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that we have the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect our own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The following table summarizes the financial liabilities measured at fair value on a recurring basis segregated by the level of valuation inputs within the fair value hierarchy utilized to measure fair value (in thousands):

	September 30, 2016			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Warrant liability	$2,814	$ —	$ —	$ 2,814
Notes payable	147	—	—	147
	$2,961	$ —	$ —	$ 2,961

	December 31, 2015			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)

Warrant liability	$17	$ —	$ —	$ 17
Notes payable	266	—	—	266
	$283	$ —	$ —	$ 283

The ultimate payment to VenturEast will be the value of 84,278 shares of common stock at the time of payment. The value of the note payable to VenturEast was determined using the fair value of our common stock less a discount for credit risk. During

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the three and nine months ended September 30, 2016, we recognized a gain of approximately $18,000 and $119,000, respectively, due to the change in value of the note.

At September 30, 2016, the warrant liability consists of stock warrants issued as part of the 2016 Offerings that contain contingent redemption features. At December 31, 2015, the warrant liability consisted of stock warrants that contained an exercise price adjustment feature. In accordance with derivative accounting for warrants, we calculated the fair value of these warrants, and the assumptions used are described in Note 9, “Fair Value of Warrants.” During the three and nine months ended September 30, 2016, we recognized a gain of approximately $712,000 on the warrants issued as part of the 2016 Offerings due to the decrease in our stock price. During the nine months ended September 30, 2016, we also recognized a gain of approximately $17,000 due to the expiration of the derivative warrants outstanding at December 31, 2015.

Realized and unrealized gains and losses related to the change in fair value of the VenturEast note and warrant liability are included in other income (expense) on the Consolidated Statements of Operations.

The following table summarizes the activity of the notes payable to VenturEast and the warrant liability, which were measured at fair value using Level 3 inputs (in thousands):

	Note Payable to VenturEast	Warrant Liability
Fair value at December 31, 2015	$ 266	$ 17
2016 Offerings	—	3,526
Change in fair value	(119)	(729)
Fair value at September 30, 2016	$ 147	$ 2,814

Note 11. Joint Venture Agreement

In November 2011, we entered into an affiliation agreement with the Mayo Foundation for Medical Education and Research (“Mayo”), subsequently amended. Under the agreement, we formed a joint venture with Mayo in May 2013 to focus on developing oncology diagnostic services and tests utilizing next generation sequencing. The joint venture is a limited liability company, with each party initially holding fifty percent of the issued and outstanding membership interests of the new entity (the “JV”). In exchange for our membership interest in the JV, we made an initial capital contribution of $1.0 million in October 2013. In addition, we issued 10,000 shares of our common stock to Mayo pursuant to our affiliation agreement and recorded an expense of approximately $175,000. We also recorded additional expense of approximately $231,000 during the fourth quarter of 2013 related to shares issued to Mayo in November 2011 as the JV achieved certain performance milestones. In the third quarter of 2014, we made an additional $1.0 million capital contribution.

The agreement also requires aggregate total capital contributions by us of up to an additional $4.0 million. We may make capital contributions up to $1.0 million in 2017. The timing of the remaining installments is subject to the JV's achievement of certain operational milestones agreed upon by the board of governors of the JV. In exchange for its membership interest, Mayo’s capital contribution takes the form of cash, staff, services, hardware and software resources, laboratory space and instrumentation, the fair market value of which will be approximately equal to $6.0 million. Mayo’s continued contribution will also be conditioned upon the JV’s achievement of certain milestones.

Our share of the JV’s net loss was approximately $18,000 and $343,000 for the three months ended September 30, 2016 and 2015, respectively, and approximately $45,000 and $748,000 for the nine months ended September 30, 2016 and 2015, respectively, and is included in research and development expense on the Consolidated Statements of

Operations. We have a net receivable due from the JV of approximately $10,000 at September 30, 2016, which is included in other current assets in the Consolidated Balance Sheets.

The joint venture is considered a variable interest entity under ASC 810-10, but we are not the primary beneficiary as we do not have the power to direct the activities of the JV that most significantly impact its performance. Our evaluation of ability to impact performance is based on our equal board membership and voting rights and day-to-day management functions which are performed by the Mayo personnel.

Note 12. Related Party Transactions

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John Pappajohn, our Chairman of the Board of Directors and stockholder, has 145,778 warrants outstanding at $15.00 per share at September 30, 2016, granted in consideration for personally guaranteeing our revolving line of credit through March 31, 2014. Mr. Pappajohn also loaned money to us prior to our IPO and was granted warrants in consideration. At September 30, 2016, Mr. Pappajohn retained 436,079 of these warrants at $15.00 per share. In January 2014, the Board of Directors appointed Mr. Pappajohn to serve as the Chairman of the Board. As compensation for serving as Chairman of the Board, the Company pays Mr. Pappajohn $100,000 per year and granted to Mr. Pappajohn 25,000 restricted shares of the Company's common stock and options to purchase an aggregate of 100,000 shares of the Company's common stock.

In April 2014, we entered into a consulting agreement with Equity Dynamics, Inc. ("EDI"), an entity controlled by Mr. Pappajohn, pursuant to which EDI received a monthly fee of $10,000. Total expenses for the three months ended September 30, 2016 and 2015 were $30,000, and for the nine months ended September 30, 2016 and 2015, total expenses were $90,000. As of September 30, 2016, we owed EDI $0.

On May 25, 2016, Mr. Pappajohn purchased 317,820 shares of common stock and warrants to purchase 158,910 shares of common stock in the May Offering described in Note 6.

In 2010, we entered into a three-year consulting agreement with Dr. Chaganti, which was subsequently renewed through December 31, 2016 pursuant to which Dr. Chaganti receives $5,000 per month for providing consulting and technical support services. Pursuant to the terms of the renewed consulting agreement, Dr. Chaganti received an option to purchase 200,000 shares of our common stock at a purchase price of $15.89 per share vesting over a period of four years. Total non-cash stock-based compensation recognized under the consulting agreement for the three months ended September 30, 2016 and 2015 was $7,125 and $59,500, respectively. Total non-cash stock-based compensation recognized under the consulting agreement for the nine months ended September 30, 2016 and 2015 was $32,750 and $220,625, respectively. Also pursuant to the consulting agreement, Dr. Chaganti assigned to us all rights to any inventions which he may invent during the course of rendering consulting services to us. In exchange for this assignment, if the USPTO issues a patent for an invention on which Dr. Chaganti is listed as an inventor, we are required to pay Dr. Chaganti (i) a one-time payment of $50,000 and (ii) 1% of any net revenues we receive from any licensed sales of the invention. In the first quarter of 2016, we paid Dr. Chaganti $50,000 which was recognized as an expense in fiscal 2015 when one patent was issued.

Note 13. Contingencies

In the normal course of business, the Company may become involved in various claims and legal proceedings. In the opinion of management, the ultimate liability or disposition thereof is not expected to have a material adverse effect on our financial condition, results of operations, or liquidity.

Note 14. Subsequent Event

On October 11, 2016, the stockholders voted to increase the number of shares reserved by the 2011 Equity Incentive Plan to 3,150,000 shares of common stock.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

As used herein, the "Company," "we," "us," "our" or similar terms, refer to Cancer Genetics, Inc. and its wholly owned subsidiaries: Cancer Genetics Italia, S.r.l., Gentris, LLC and BioServe Biotechnologies (India) Private Limited, except as expressly indicated or unless the context otherwise requires. The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to help facilitate an understanding of our financial condition and our historical results of operations for the periods presented. This MD&A should be read in

conjunction with the audited consolidated financial statements and notes thereto included in our annual report on Form 10-K filed with the SEC on March 10, 2016. This MD&A may contain forward-looking statements that involve risks and uncertainties. See “Cautionary Note Regarding Forward-Looking Statements” below.

Overview

We are an emerging leader in the field of personalized medicine, enabling precision medicine in the field of oncology through our diagnostic products and services and molecular markers. We develop, commercialize and provide molecular- and biomarker-based tests and services that enable physicians to personalize the clinical management of each individual patient by providing genomic information to better diagnose, monitor and inform cancer treatment and that enable biopharmaceutical companies engaged in oncology trials to better select candidate populations and reduce adverse drug reactions by providing information regarding genomic factors influencing subject responses to therapeutics. We have a comprehensive, disease-

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focused oncology testing portfolio. Our tests and techniques target a wide range of cancers, covering eight of the top ten cancers in prevalence in the United States, with additional unique capabilities offered by our Tissue of Origin® test for identifying difficult to diagnose tumor types or poorly differentiated metastatic disease.
Our vision is to become the oncology diagnostics partner for biopharmaceutical companies and clinicians by participating in the entire care continuum from bench to bedside. We believe the diagnostics industry is undergoing a rapid evolution in its approach to oncology testing, embracing precision medicine and individualized testing as a means to drive higher standards of patient treatment and disease management. Similarly, biopharmaceutical companies are increasingly engaging companies such as ours to provide information on clinical trial participants' molecular profiles in order to identify biomarker and genomic variations that may be responsible for differing responses to pharmaceuticals, and particularly to oncology drugs, thereby increasing the efficiency of trials while lowering related costs. We believe tailored therapeutics can revolutionize oncology medicine through molecular- and biomarker-based testing services, enabling physicians and researchers to target the factors that make each patient and disease unique. We have created a unique position in the industry by providing targeted somatic analysis of tumor sample cells alongside germline analysis of an individual's non-cancerous cells' molecular profile as we attempt to reach the next milestone in personalized medicine. Individuals are born with germline mutations, and somatic mutations arise in tissues over the course of a lifetime.

Our services are performed at our state-of-the-art laboratories located in New Jersey, North Carolina, California, Shanghai (China), and Hyderabad, India. Our laboratories comply with the highest regulatory standards as appropriate for the services they deliver including CLIA, CAP, NY State, California State and NABL (India). Our services are built on a foundation of world-class scientific knowledge and intellectual property in solid and blood-borne cancers, as well as strong academic relationships with major cancer centers such as Memorial Sloan-Kettering, Mayo Clinic, and the National Cancer Institute.

Our clinical offerings include our portfolio of proprietary tests targeting hematological, urogenital and HPV-associated cancers, in conjunction with ancillary non-proprietary tests. Our proprietary tests target cancers that are difficult to prognose and predict treatment outcomes through currently available mainstream techniques. We provide our proprietary tests and services, along with a comprehensive range of non-proprietary oncology-focused tests and laboratory services, to oncologists and pathologists at hospitals, cancer centers, and physician offices, as well as biotech and pharmaceutical companies to support their clinical trials. Our proprietary tests are based principally on our expertise in specific cancer types, test development methodologies and proprietary algorithms correlating genetic events with disease specific information. Our portfolio primarily includes comparative genomic hybridization (CGH) microarrays and next generation sequencing (NGS) panels, and DNA fluorescent in situ hybridization (FISH) probes.

The non-proprietary testing services we offer are focused in part on specific oncology categories where we are developing our proprietary tests. We believe that there is significant synergy in developing and marketing a complete set of tests and services that are disease focused and delivering those tests and services in a comprehensive manner to help with treatment decisions.

The insight that we develop in delivering the non-proprietary services are often leveraged in the development of our proprietary programs and now increasingly in the validation of our proprietary programs, such as MatBA and Focus::NGS.

We expect to continue to incur significant losses for the near future. We incurred losses of $20.2 million and $16.6 million for fiscal years ended December 31, 2015 and 2014, respectively, and $13.0 million for the nine months ended September 30, 2016.

As of September 30, 2016, we had an accumulated deficit of $111.2 million.

Acquisitions

On October 9, 2015, we acquired substantially all of the assets of Response Genetics, Inc. (“Response Genetics”), now referred to as CGI West, with its principal place of business in California, for aggregate consideration of approximately $12.9 million.

Key Factors Affecting our Results of Operations and Financial Condition

Our overall long-term growth plan is predicated on our ability to develop and commercialize our proprietary tests, penetrate the Biopharma community to achieve more revenue supporting clinical trials and develop and penetrate the Indian market. Our proprietary tests include CGH microarrays, NGS panels, and DNA FISH probes.We continue to develop additional proprietary tests. To facilitate market adoption of our proprietary tests, we anticipate having to successfully complete additional studies with clinical samples and publish our results in peer-reviewed scientific journals. Our ability to complete such studies is

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dependent upon our ability to leverage our collaborative relationships with leading institutions to facilitate our research and obtain data for our quality assurance and test validation efforts.

We believe that the factors discussed in the following paragraphs have had and are expected to continue to have a material impact on our results of operations and financial condition.

Revenues

Our revenue is primarily generated through our Clinical Services and Biopharma Services. Clinical Services can be billed to Medicare, another third party insurer or the referring community hospital or other healthcare facility in accordance with state and federal law. Biopharma Services are billed to the customer directly. While we have agreements with our Biopharma clients, volumes from these clients are subject to the progression and continuation of the trials which can impact testing volume. We also derive limited revenue from Discovery Services, which are services provided in the development of new testing assays and methods. Discovery Services are billed directly to the customer.

We have historically derived a significant portion of our revenue from a limited number of test ordering sites, although the test ordering sites that generate a significant portion of our revenue have changed from period to period. Test ordering sites account for all of our Clinical Services revenue along with a portion of the Biopharma Services revenue. Our test ordering sites are hospitals, cancer centers, reference laboratories, physician offices and biopharmaceutical companies. Oncologists and pathologists at these sites order the tests on behalf of the needs of their oncology patients or as part of a clinical trial sponsored by a biopharmaceutical company in which the patient is being enrolled.

The top five test ordering clients during the three months ended September 30, 2016 and 2015 accounted for 39% and 59%, respectively, of our testing volumes, with 6% and 27%, respectively, of the test volume coming from community hospitals. During the three months ended September 30, 2016, one Biopharma client accounted for approximately 18% of our revenue. During the three months ended September 30, 2015, two Biopharma clients accounted for approximately 15% and 11% of our revenue, respectively.

The top five test ordering clients during the nine months ended September 30, 2016 and 2015 accounted for 31% and 80%, respectively, of our testing volumes, with 7% and 31%, respectively, of the test volume coming from community hospitals. During the nine months ended September 30, 2016, one Biopharma client accounted for approximately 10% of our revenue. During the nine months ended September 30, 2015, two Biopharma clients accounted for approximately 23% and 11% of our revenue, respectively.

We receive revenue for our Clinical Services from Medicare, other insurance carriers and other healthcare facilities. Some of our customers choose, generally at the beginning of our relationship, to pay for laboratory services directly as opposed to having patients (or their insurers) pay for those services and providing us with the patients' insurance information. A hospital may elect to be a direct bill customer and pay our bills directly, or may provide us with patient information so that their patients pay our bills, in which case we generally expect payment from their private insurance carrier or Medicare. In a few instances, we have arrangements where a hospital may have two accounts with us, so that certain tests are billed directly to the hospital, and certain tests are billed to and paid by a patient's insurer. The billing arrangements generally are dictated by our customers and in accordance with state and federal law.

For the three months ended September 30, 2016, Medicare accounted for approximately 14% of our total revenue, other insurance accounted for approximately 21% of our total revenue and other healthcare facilities accounted for 5% of our total revenue. For the nine months ended September 30, 2016, Medicare accounted for approximately 13% of our total revenue, other insurance accounted for approximately 20% of our total revenue and other healthcare facilities

accounted for 6% of our total revenue. On average, we generate less revenue per test from other healthcare facilities billed directly, than from other insurance payers.

Cost of Revenues

Our cost of revenues consists principally of internal personnel costs, including stock-based compensation, laboratory consumables, shipping costs, overhead and other direct expenses, such as specimen procurement and third party validation studies. We are pursuing various strategies to reduce and control our cost of revenues, including automating our processes through more efficient technology and attempting to negotiate improved terms with our suppliers. We completed two acquisitions in 2014; Gentris in North Carolina and BioServe in India. In 2015, we acquired substantially all of the assets of Response Genetics in California. With these three acquisitions, we have made significant progress with integrating our

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resources and services in an effort to reduce costs. We will continue to assess how geographic advantage can help us improve our cost structure.

Operating Expenses

We classify our operating expenses into three categories: research and development, sales and marketing, and general and administrative. Our operating expenses principally consist of personnel costs, including stock-based compensation, outside services, laboratory consumables and overhead, development costs, marketing program costs and legal and accounting fees.

Research and Development Expenses.We incur research and development expenses principally in connection with our efforts to develop our proprietary tests. Our primary research and development expenses consist of direct personnel costs, laboratory equipment and consumables and overhead expenses. In 2013, we entered into a joint venture with the Mayo Foundation for Medical Education and Research, with a focus on developing oncology diagnostic services and tests utilizing next generation sequencing. All research and development expenses are charged to operations in the periods they are incurred.

General and Administrative Expenses. General and administrative expenses consist principally of personnel-related expenses, professional fees, such as legal, accounting and business consultants, occupancy costs, bad debt and other general expenses. We have incurred increases in our general and administrative expenses and anticipate further increases as we expand our business operations.

Sales and Marketing Expenses. Our sales and marketing expenses consist principally of personnel and related overhead costs for our sales team and their support personnel, travel and entertainment expenses, and other selling costs including sales collaterals and trade shows. We expect our sales and marketing expenses to increase as we expand into new geographies and add new clinical tests and services.

Seasonality

Our business experiences decreased demand during spring vacation season, summer months and the December holiday season when patients are less likely to visit their health care providers. We expect this trend in seasonality to continue for the foreseeable future.

Results of Operations

Three Months Ended September 30, 2016 and 2015

The following table sets forth certain information concerning our results of operations for the periods shown:

	Three Months Ended September 30,		Change	
(dollars in thousands)	2016	2015	$	%
Revenue	$6,750	$4,001	$2,749	69 %
Cost of revenues	4,444	3,103	1,341	43 %
Research and development expenses	1,594	1,802	(208)	(12)%
General and administrative expenses	3,701	3,487	214	6 %
Sales and marketing expenses	1,054	1,243	(189)	(15)%
Loss from operations	(4,043)	(5,634)	1,591	(28)%
Interest income (expense)	(107)	(107)	—	— %

Change in fair value of acquisition note payable	18	315	(297)	(94)%
Change in fair value of warrant liability	712	214	498	233 %
Other expense	(325)	—	(325)	n/a
Net (loss)	$(3,745)	$(5,212)	$1,467	(28)%

Revenue

The breakdown of our revenue is as follows:

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	Three Months Ended September 30,				Change	
	2016		2015			
(dollars in thousands)	$	%	$	%	$	%
Biopharma Services	$3,805	56 %	$2,608	65 %	$1,197	46 %
Clinical Services	2,687	40 %	1,150	29 %	1,537	134%
Discovery Services	258	4 %	243	6 %	15	6 %
Total Revenue	$6,750	100%	$4,001	100%	$2,749	69 %

Revenue increased 69%, or $2.7 million, to $6.8 million for the three months ended September 30, 2016, from $4.0 million for the three months ended September 30, 2015, principally due to the acquisition of CGI West, whose revenue accounted for $2.0 million of the increase; an increase of $0.7 million in Biopharma and an increase of $0.1 million in Clinical Services from our other locations. The acquired business consisted of $1.5 million in Clinical Services and $0.5 million in Biopharma Services. Our average revenue (excluding probe revenue) per test decreased to $397 per test for the three months ended September 30, 2016 from $612 per test for the three months ended September 30, 2015, principally due to the additional Clinical Services revenue from our acquisition of CGI West. Clinical Services revenue has a lower per test rate than Biopharma Services. Test volume increased by 236% from 3,676 tests for the three months ended September 30, 2015 to 12,348 tests for the three months ended September 30, 2016.

Revenue from Biopharma Services increased 46%, or $1.2 million, to $3.8 million for the three months ended September 30, 2016, from $2.6 million for the three months ended September 30, 2015, due to the revenue from our acquisition of CGI West, which accounted for $0.5 million of the increase, and an increase of $0.7 million at our other locations. Revenue from Clinical Services customers increased by $1.5 million, or 134%, due to the revenue from our acquisition of CGI West, which accounted for $1.4 million of the increase, and an increase $0.1 million at our other locations.

Cost of Revenues

Cost of revenues increased 43%, or $1.3 million, for the three months ended September 30, 2016, principally due to the costs of revenue from CGI West of $1.1 million and an increase in lab supplies in our other locations of $0.3 million as a result of increased volume and revenues, partially offset by a $0.2 million reduction in compensation, as a result of the Company’s focus on reducing cost and improving gross margin. Gross margin improved to 34% during the three months ended September 30, 2016 from 22% during the three months ended September 30, 2015, due to cost reduction initiatives and synergies across locations.

Operating Expenses

Research and development expenses decreased 12%, or $0.2 million, to $1.6 million for the three months ended September 30, 2016, from $1.8 million for the three months ended September 30, 2015, principally due to the following: a $0.3 million decrease in our share of the loss from Oncospire, our joint venture with the Mayo Clinic; a decrease in our R&D expenditure of $0.3 million and a decrease of $0.1 million in compensation; partially offset by our validation projects (supplies and labor) at CGI West of $0.5 million.

General and administrative expenses increased 6%, or $0.2 million, to $3.7 million for the three months ended September 30, 2016, from $3.5 million for the three months ended September 30, 2015, principally due to the costs from the acquired business, CGI West, of $0.9 million. This increase was partially offset by the following: a decrease in compensation of $0.4 million; a decrease of $0.1 million in audit fees and a decrease in stock-based compensation of $0.2 million.

Sales and marketing expenses decreased 15%, or $0.2 million, to $1.1 million for the three months ended September 30, 2016, from $1.2 million for the three months ended September 30, 2015, principally due to decreased compensation costs of $0.2 million and decreased travel costs of $0.1 million, partially offset by the cost from the acquired business, CGI West, of $0.2 million.

Interest Income (Expense)

Net interest expense remained consistent during the three months ended September 30, 2016 and 2015.

Change in Fair Value of Acquisition Note Payable

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The change in fair value of note payable resulted in approximately $18,000 and $0.3 million in non-cash income for the three months ended September 30, 2016 and 2015, respectively. The fair value of the note representing part of the purchase price for BioServe decreased as a consequence of a decrease in our stock price.

Change in Fair Value of Warrant Liability

Changes in fair value of some of our common stock warrants may impact our quarterly results. Accounting rules require us to record certain of our warrants as a liability, measure the fair value of these warrants each quarter and record changes in that value in earnings. As a result of a decrease in our stock price, we recognized non-cash income of $0.7 million and $0.2 million for the three months ended September 30, 2016 and 2015, respectively. In the future, if our stock price increases, we would record a non-cash charge as a result of changes in the fair value of our common stock warrants. Consequently, we may be exposed to non-cash charges, or we may record non-cash income, as a result of this warrant exposure in future periods.

Other Expense

During the three months ended September 30, 2016, we expensed $0.3 million of offering costs associated with the derivative warrants issued in the 2016 Offerings.

Nine Months Ended September 30, 2016 and 2015

The following table sets forth certain information concerning our results of operations for the periods shown:

	Nine Months Ended September 30,		Change	
(dollars in thousands)	2016	2015	$	%
Revenue	$19,819	$12,556	$7,263	58 %
Cost of revenues	12,832	9,342	3,490	37 %
Research and development expenses	4,806	4,335	471	11 %
General and administrative expenses	11,677	9,536	2,141	22 %
Sales and marketing expenses	3,731	3,543	188	5 %
Loss from operations	(13,227)	(14,200)	973	(7)%
Interest income (expense)	(323)	(197)	(126)	64 %
Change in fair value of acquisition note payable	119	(91)	210	100 %
Change in fair value of warrant liability	729	18	711	3,950 %
Other expense	(325)	—	(325)	n/a
Net (loss)	$(13,027)	$(14,470)	$1,443	(10)%

Revenue

The breakdown of our revenue is as follows:

	Nine Months Ended September 30,				Change	
	2016		2015			
(dollars in thousands)	$	%	$	%	$	%
Biopharma Services	11,374	57 %	$8,614	69 %	$2,760	32 %
Clinical Services	7,685	39 %	3,274	26 %	4,411	135%
Discovery Services	760	4 %	668	5 %	92	14 %
Total Revenue	$19,819	100%	$12,556	100%	$7,263	58 %

Revenue increased 58%, or $7.3 million, to $19.8 million for the nine months ended September 30, 2016, from $12.6 million for the nine months ended September 30, 2015, principally due to the acquisition of CGI West, whose revenue accounted for $6.2 million of the increase. The acquired business consisted of $4.6 million in Clinical Services and $1.6 million in Biopharma Services. There was also an increase of $1.2 million in Biopharma Services at our other locations and an increase of $0.1 million in our Discovery Services, partially offset by a decrease of $0.2 million in our Clinical Services at our other locations. Our average revenue (excluding probe revenue) per test decreased to $408 per test for the nine months ended September 30, 2016 from $600 per test for the nine months ended September 30, 2015, principally due to the additional Clinical Services revenue from our acquisition of CGI West. Clinical Services revenue has a lower per test rate than Biopharma Services. Test

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volume increased by 218% from 11,378 tests for the nine months ended September 30, 2015 to 36,156 tests for the nine months ended September 30, 2016.

Revenue from Biopharma Services increased 32%, or $2.8 million, to $11.4 million for the nine months ended September 30, 2016, from $8.6 million for the nine months ended September 30, 2015, due to the revenue from our acquisition of CGI West, which accounted for $1.6 million of the increase, and an increase of $1.2 million from our other locations. Revenue from Clinical Services customers increased by $4.4 million, or 135%, for the nine months ended September 30, 2016 due to the revenue from our acquisition of CGI West, which accounted for $4.6 million of the increase, which was partially offset by a decrease in revenue of $0.2 million at our other locations.

Cost of Revenues

Cost of revenues increased 37%, or $3.5 million, for the nine months ended September 30, 2016, principally due to the costs of revenue from CGI West of $4.2 million; increases at our locations in lab supplies of $0.2 million, shipping costs of $0.3 million, and stock based compensation of $0.1 million. These increases were partially offset by a $0.8 million reduction in compensation and a $0.4 million reduction in outsourced services. These reductions were a result of the Company's focus on reducing cost and improving gross margin. Gross margin improved to 35% during the nine months ended September 30, 2016 from 26% during the nine months ended September 30, 2015, due to cost reduction initiatives.

Operating Expenses

Research and development expenses increased 11%, or $0.5 million, to $4.8 million for the nine months ended September 30, 2016, from $4.3 million for the nine months ended September 30, 2015, principally due to the following: validation projects at CGI West as well as our existing locations. This initiative saw increases in costs of $1.2 million at our California location and $0.5 million at our other locations for labor and lab supplies. These increases were partially offset by the following: a $0.7 million decrease in our share of the loss from Oncospire, our joint venture with the Mayo Clinic; a reduction in stock based compensation of $0.2 million and a reduction of $0.3 million in our R&D projects expenditure.

General and administrative expenses increased 22%, or $2.1 million, to $11.7 million for the nine months ended September 30, 2016, from $9.5 million for the nine months ended September 30, 2015, principally due to the following: costs from the acquired business, CGI West, of $2.5 million and increased insurance, legal, licenses and information technology costs as a result of our expanded operations of $0.9 million. These increases were partially offset by the following: a reduction of $0.2 million in audit fees; a reduction of $0.2 million in the bad debt allowance; a reduction of $0.2 million in public relations costs; a reduction of $0.5 million in stock based compensation costs and a reduction of $0.2 million in recruiting and medical billing costs.

Sales and marketing expenses increased 5%, or $0.2 million, to $3.7 million for the nine months ended September 30, 2016, from $3.5 million for the nine months ended September 30, 2015, principally due to increased costs from CGI West of $0.9 million, partially offset by the following: a reduction of compensation of $0.4 million and a reduction of $0.3 million in consulting, recruiting and travel and entertainment.

Interest Income (Expense)

Net interest expense increased 64%, or $0.1 million, principally due to the higher interest rate related to the debt we refinanced in May 2015.

Change in Fair Value of Acquisition Note Payable

The change in fair value of note payable resulted in $0.1 million in non-cash income for the nine months ended September 30, 2016, as compared to non-cash expense of $0.1 million for the nine months ended September 30, 2015. The fair value of the note representing part of the purchase price for BioServe decreased during the nine months ended September 30, 2016 as a consequence of a decrease in our stock price.

Change in Fair Value of Warrant Liability

Changes in fair value of some of our common stock warrants may impact our quarterly results. Accounting rules require us to record certain of our warrants as a liability, measure the fair value of these warrants each quarter and record changes in that value in earnings. As a result of a decrease in our stock price, we recognized non-cash income of $0.7 million and $18,000 for the nine months ended September 30, 2016 and 2015, respectively. In the future, if our stock price increases, we would record a

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non-cash charge as a result of changes in the fair value of our common stock warrants. Consequently, we may be exposed to non-cash charges, or we may record non-cash income, as a result of this warrant exposure in future periods.

Other Expense

During the nine months ended September 30, 2016, we expensed $0.3 million of offering costs associated with the derivative warrants issued in the 2016 Offerings.

Liquidity and Capital Resources

Sources of Liquidity

Our primary sources of liquidity have been funds generated from our debt financings and equity financings. In addition, we have generated funds from the following sources: (i) cash collections from customers and (ii) cash received from sale of state NOL's.

In general, our primary uses of cash are providing for operating expenses, working capital purposes and servicing debt. As of
September 30, 2016, we have not borrowed on our line of credit, which allowed for borrowings of up to $4.0 million. On January 28, 2016, the Line of Credit was amended with SVB, and we are no longer able to draw on the Line of Credit until we raise approximately $2.5 million of additional equity. As discussed in Note 1 of Notes to Unaudited Consolidated Financial Statements included in Item 1 of this quarterly report on Form 10-Q, the Company raised $5.0 million in May of 2016 and $5.5 million in September of 2016. Our largest source of operating cash flow is cash collections from our customers.

2016 Offerings

May Offering

On May 25, 2016, we sold 2,467,820 shares of common stock in a public offering and warrants to purchase 1,233,910 shares of common stock in a concurrent private placement. These offerings resulted in gross proceeds of $5 million. We sold 2,150,000 shares of common stock and warrants to purchase 1,075,000 shares of common stock to certain institutional investors at a combined offering price of $2.00 per common share, and our Chairman of the Board, John Pappajohn, purchased 317,820 shares of common stock and warrants to purchase 158,910 shares of common stock at a combined offering price of $2.2025 per common share. In addition, we issued warrants to purchase an aggregate of 123,391 shares of common stock to the placement agent. Subject to certain ownership limitations, the warrants will be initially exercisable commencing six months from the issuance date at an exercise price equal to $2.25 per share of common stock. The warrants are exercisable for five years from the initial exercise date.

September Offering

On September 14, 2016, we sold 2,750,000 shares of common stock in a public offering and warrants to purchase 1,375,000 shares of common stock in a concurrent private placement at a combined price of $2.00 per common share. These offerings resulted in gross proceeds of $5.5 million. In addition, we issued warrants to purchase an aggregate of 137,500 shares of common stock to the placement agent. Subject to certain ownership restrictions, the warrants will be initially exercisable six months from the issuance date at an exercise price of $2.25 per share of common stock. The warrants are exercisable for five years from the initial exercise date.

Cash Flows

Our net cash flow from operating, investing and financing activities for the periods below were as follows:

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(in thousands)	Nine Months Ended September 30, 2016	2015
Cash provided by (used in):		
Operating activities	$(17,299)	$(9,950)
Investing activities	(472)	4,571
Financing activities	9,028	(257)
Net (decrease) in cash and cash equivalents	$(8,743)	$(5,636)

We had cash and cash equivalents of $10.7 million at September 30, 2016, and $19.5 million at December 31, 2015.

The $8.7 million decrease in cash and cash equivalents for the nine months ended September 30, 2016, principally resulted from $17.3 million of net cash used in operations, fixed asset additions of $0.3 million, patent costs of $0.1 million, capital lease payments of $0.1 million and principal payments on the bank term note of $0.8 million, offset by $10.0 million of net proceeds from the 2016 Offerings.

The $5.6 million decrease in cash and cash equivalents for the nine months ended September 30, 2015, principally resulted from $10.0 million of net cash used in operations and a $0.9 million deposit paid to acquire Response Genetics offset by a $6.0 million decrease in restricted cash related to our debt financing facility with Silicon Valley Bank that does not require us to maintain restricted cash accounts.

At September 30, 2016, we had total indebtedness of $5.3 million, excluding capital lease obligations.

Cash Used in Operating Activities

Net cash used in operating activities was $17.3 million for the nine months ended September 30, 2016. We used $10.5 million in net cash to fund our core operations, which included $0.3 million in cash paid for interest. We incurred additional uses of cash when adjusting for working capital items as follows: a net increase in accounts receivable of $7.1 million and an increase in other current assets of $0.1 million, offset by a net increase in accounts payable, accrued expenses and deferred revenue of $0.4 million.

We have a number of initiatives underway to bring use of cash from accounts receivable growth down to lower levels. We have made significant progress in this area and all of the claims that were delayed due to system and integration issues from CGI West have been input and billed. These efforts are improving our cash collections and we expect this trend to continue in the future.

For the nine months ended September 30, 2015, we used $10.0 million in operating activities. We used $10.4 million in net cash to fund our core operations, which included $0.2 million in cash paid for interest. We incurred additional uses of cash when adjusting for working capital items as follows: a net increase in accounts receivable of $0.3 million; an increase in other current assets of $0.4 million, which includes prepayments for our insurance policies; an increase in other non-current assets of $0.1 million; and a net decrease in deferred rent and other of $0.1 million, offset by a net increase in accounts payable, accrued expenses and deferred revenue of $1.3 million.

Cash Provided by/Used in Investing Activities

Net cash used in investing activities was $0.5 million for the nine months ended September 30, 2016 and resulted from the purchase of fixed assets of $0.3 million and patent costs of $0.1 million.

Net cash provided by investing activities was $4.6 million for the nine months ended September 30, 2015 and principally resulted from a $6 million decrease in restricted cash related to our new debt financing facility with Silicon Valley Bank that does not require us to maintain restricted cash accounts, partially offset by a $0.9 million deposit paid to acquire Response Genetics.

Cash Provided by/Used in Financing Activities

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Net cash provided by financing activities was $9.0 million for the nine months ended September 30, 2016 and principally resulted from proceeds received in the 2016 Offerings of $10.0 million, offset by principal payments made on the bank term note of $0.8 million and capital lease payments of $0.1 million.

Net cash used in financing activities was $0.3 million for the nine months ended September 30, 2015 and principally resulted from payments for deferred equity offering costs of $0.2 million.

Capital Resources and Expenditure Requirements

We expect to continue to incur substantial operating losses in the future. It may take several years, if ever, to achieve positive operational cash flow. We need to raise additional capital to fund our current operations, to repay certain outstanding indebtedness and to fund expansion of our business to meet our long-term business objectives through public or private equity offerings, debt financings, borrowings or strategic partnerships coupled with an investment in our company or a combination thereof. If we raise additional funds through the issuance of convertible debt securities, or other debt securities, these securities could be secured and could have rights senior to those of our common stock. In addition, any new debt incurred by the Company could impose covenants that restrict our operations and increase our interest expense. The issuance of any new equity securities will also dilute the interest of our current stockholders. Given the risks associated with our business, including our unprofitable operating history and our ability to develop additional proprietary tests, additional capital may not be available when needed on acceptable terms, or at all. If adequate funds are not available, we will need to curb our expansion plans or limit our research and development activities, which would have a material adverse impact on our business prospects and results of operations.

We believe that our current cash will support operations for at least the next 6 to 9 months. We are exploring opportunities for additional equity or debt financing, and we are taking steps to improve our operating cash flow. We can provide no assurances that our current actions will be successful or that any additional sources of financing will be available to us on favorable terms, if at all, when needed. Our forecast of the period of time through which our current financial resources will be adequate to support our operations and the costs to support our general and administrative, sales and marketing and research and development activities are forward-looking statements and involve risks and uncertainties.

The continuation of the Company as a going concern is dependent on the ability of the Company to obtain necessary debt and/or equity financing to continue operations. These interim consolidated financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

We expect our operating expenses to increase as we continue investing in sales and marketing, research and development and other general and administrative expenses.

Our forecast of the period of time through which our current financial resources will be adequate to support our operations and our expected operating expenses are forward-looking statements and involve risks and uncertainties. Actual results could vary materially and negatively as a result of a number of factors, including:

- our ability to achieve revenue growth and profitability;
- the costs for funding the operations we recently acquired and our ability to successfully integrate those operations with and into our own;
- our ability to improve efficiency of billing and collection processes;
- our ability to obtain approvals for our new diagnostic tests;
- our ability to execute on our marketing and sales strategy for our genomic tests and gain acceptance of our tests in the market;

- our ability to obtain adequate reimbursement from governmental and other third-party payors for our tests and services;
- the costs, scope, progress, results, timing and outcomes of the clinical trials of our diagnostic tests;
- the costs of operating and enhancing our laboratory facilities;
- our ability to succeed with our cost control initiative;
- the timing of and the costs involved in regulatory compliance, particularly if the regulations change;
- the costs of maintaining, expanding and protecting our intellectual property portfolio, including potential litigation costs and liabilities;
- our ability to manage the costs of manufacturing our tests;
- our rate of progress in, and cost of research and development activities associated with, tests in research and early development;

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- the effect of competing technological and market developments;
- costs related to expansion;
- our ability to secure financing and the amount thereof; and
- other risks and uncertainties discussed in our annual report on Form 10-K for the year ended December 31, 2015 and other reports, as applicable, we file with the Securities and Exchange Commission.

We expect that our operating expenses and capital expenditures will increase in the future as we expand our business and integrate our recent acquisitions. We plan to increase our sales and marketing headcount to promote our new clinical tests and services and to expand into new geographies and to increase our research and development expenditures associated with performing work with research collaborators, to expand our pipeline and to perform work associated with our research collaborations. For example, in 2011 we entered into an affiliation agreement to form a joint venture with the Mayo Foundation for Medical Education and Research pursuant to which we made an initial $1.0 million capital contribution in October 2013 and $1.0 million in the third quarter of 2014. We currently anticipate that we may make capital contributions up to $1.0 million in 2017 and may make additional capital contributions of up to $3.0 million, subject to the joint venture entity’s achievement of certain operational milestones. Until we can generate a sufficient amount of revenues to finance our cash requirements, which we may never do, we may need to raise additional capital to fund our operations.

Subject to the availability of financing, we may use significant cash to fund acquisitions. On October 9, 2015, we acquired substantially all of the assets of Response Genetics for aggregate consideration of approximately $12.9 million consisting of $7.5 million in cash and our common stock valued at approximately $5.4 million.

In May 2015, we entered into a line of credit with Silicon Valley Bank. Pursuant to the amendment dated January 28, 2016, the Company agreed not to draw on the line of credit until $2.5 million of additional equity is raised. As discussed in Note 1 of Notes to Unaudited Consolidated Financial Statements included in Item 1 of this quarterly report on Form 10-Q, the Company raised $5.0 million in May of 2016 and $5.5 million in September of 2016. See Note 5 of Notes to Unaudited Consolidated Financial Statements included in Item 1 of this quarterly report on Form 10-Q.

Income Taxes

Over the past several years, we have generated operating losses in all jurisdictions in which we may be subject to income taxes. As a result, we have accumulated significant net operating losses and other deferred tax assets. Because of our history of losses and the uncertainty as to the realization of those deferred tax assets, a full valuation allowance has been recognized. We do not expect to report a benefit related to the deferred tax assets until we have a history of earnings, if ever, that would support the realization of our deferred tax assets.

Off-Balance Sheet Arrangements

Since inception, we have not engaged in any off-balance sheet activities as defined in Item 303(a)(4) of Regulation S-K.

Critical Accounting Policies and Significant Judgment and Estimates

Our management’s discussion and analysis of financial condition and results of operations is based on our consolidated financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of our consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates based on historical experience and make various assumptions, which management believes to be reasonable

under the circumstances, which form the basis for judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Section 107 of the JOBS Act provides that an “emerging growth company can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act for complying with new or revised accounting standards. In other words, an “emerging growth company” can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. However, we have chosen to “opt out” of such extended transition period, and as a result, we will comply with new or revised accounting standards on the relevant dates on which adoption of such standards is required for non-emerging growth companies. Section 107 of the JOBS Act provides that our decision to opt out of the extended transition period for complying with new or revised accounting standards is irrevocable.

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The notes to our audited consolidated financial statements in our annual report on Form 10-K for the year ended December 31, 2015 contain a summary of our significant accounting policies. We consider the following accounting policies critical to the understanding of the results of our operations:

- Revenue recognition;
- Accounts receivable and bad debts; and
- Stock-based compensation.

Cautionary Note Regarding Forward-Looking Statements

Safe Harbor Statement under the Private Securities Litigation Reform Act of 1995

This report on Form 10-Q contains forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 under Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements include all statements that are not historical facts. In some cases, you can identify forward-looking statements by terms such as “may,” “will,” “should,” “could,” “would,” “expects,” “plans,” “anticipates,” “believes,” “estimates,” “projects,” “predicts,” “potential,” or th those terms, and similar expressions and comparable terminology intended to identify forward-looking statements. These statements reflect our current views with respect to future events. There are a number of important factors that could cause the actual results to differ materially from those expressed in any forward-looking statement made by us. These factors include, but are not limited to:

- our ability to achieve profitability by increasing sales of our laboratory tests and services and to continually develop and commercialize novel and innovative diagnostic tests and services for cancer patients;
- ability to raise additional capital to meet our liquidity needs;
- our ability to improve efficiency of billing and collection processes;
- our ability clinically validate our pipeline of genomic microarray tests currently in development;
- our ability to execute on our marketing and sales strategy for our genomic tests and gain acceptance of our tests in the market;
- our ability to keep pace with rapidly advancing market and scientific developments;
- our ability to satisfy U.S. (including FDA) and international regulatory requirements with respect to our tests and services, many of which are new and still evolving;
- our ability to obtain reimbursement from governmental and other third-party payors for our tests and services;
- competition from clinical laboratory services companies, diagnostic tests currently available or new tests that may emerge;
- our ability to maintain our clinical collaborations and enter into new collaboration agreements with highly regarded organizations in the cancer field so that, among other things, we have access to thought leaders in the field and to a robust number of samples to validate our genomic tests;
- our ability to maintain our present customer base and obtain new customers;
- potential product liability or intellectual property infringement claims;
- our dependency on third-party manufacturers to supply or manufacture our products;
- our ability to attract and retain a sufficient number of scientists, clinicians, sales personnel and other key personnel with extensive experience in oncology, who are in short supply;
- our ability to obtain or maintain patents or other appropriate protection for the intellectual property in our proprietary tests and services;
- our dependency on the intellectual property licensed to us or possessed by third parties;
- our ability to expand internationally and launch our tests in emerging markets, such as India and Brazil;
- our ability to adequately support future growth; and
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the risk factors discussed in our annual report on Form 10-K for the year ended December 31, 2015, as updated in other reports, as applicable, that we file with the Securities and Exchange Commission.

Given these uncertainties, you should not place undue reliance on these forward-looking statements. These forward-looking statements represent our estimates and assumptions only as of the date of this quarterly report on Form 10-Q and, except as required by law, we undertake no obligation to update or review publicly any forward-looking statements, whether as a result of new information, future events or otherwise after the date of this quarterly report on Form 10-Q. You should read this quarterly report on Form 10-Q and the documents referenced herein and filed as exhibits completely and with the understanding that our actual future results may be materially different from what we expect.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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Not applicable.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We evaluated, under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer, the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities and Exchange Act of 1934 (“Exchange Act”), as amended, as of September 30, 2016, the end of the period covered by this report on Form 10-Q. Based on this evaluation, our President and Chief Executive Officer (principal executive officer) and our Chief Financial Officer (principal accounting and financial officer) have concluded that our disclosure controls and procedures were effective at the reasonable assurance level at September 30, 2016.

Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act (i) is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and (ii) is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. Due to the inherent limitations of control systems, not all misstatements may be detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. Controls and procedures can only provide reasonable, not absolute, assurance that the above objectives have been met.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the three months ended September 30, 2016 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

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PART II — OTHER INFORMATION

Item 1. Legal Proceedings

In the normal course of business, the Company may become involved in various claims and legal proceedings. In the opinion of management, the ultimate liability or disposition thereof is not expected to have a material adverse effect on our financial condition, results of operations, or liquidity.

Item 1A. Risk Factors

There have been no material changes to the risk factors disclosed in Part 1, Item 1A, of our annual report on Form 10-K for the year ended December 31, 2015, except for the risk factor set forth in our current report on Form 10-Q under Item 1A, filed on August 9, 2016, which Risk Factors are incorporated herein by reference as if set forth in full.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds from Sales of Registered Securities

Not applicable.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits

See the Index to Exhibits following the signature page hereto, which Index to Exhibits is incorporated herein by reference.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Cancer Genetics, Inc.
(Registrant)

Date: November 9, 2016 /s/ Panna L. Sharma
Panna L. Sharma
President and Chief Executive Officer
(Principal Executive Officer)

Date: November 9, 2016 /s/ Edward J. Sitar
Edward J. Sitar
Chief Financial Officer
(Principal Financial and Accounting Officer)

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INDEX TO EXHIBITS

Exhibit No.	Description
4.1	Form of Warrant Agreement of Cancer Genetics, Inc. (incorporated by reference to Exhibit 4.1 to the Company's current report on Form 8-K, filed with the Securities and Exchange Commission on September 9, 2016).
10.1	Form of Securities Purchase Agreement, dated September 8, 2016, by and between Cancer Genetics, Inc. and various purchasers named therein (incorporated by reference to Exhibit 10.1 to the Company's current report on Form 8-K, filed with the Securities and Exchange Commission on September 9, 2016).
10.2	Engagement Letter between Cancer Genetics, Inc. and Rodman & Renshaw, a unit of H.C. Wainwright & Co., LLC, dated as of September 8, 2016 (incorporated by reference to Exhibit 10.2 to the Company's current report on Form 8-K, filed with the Securities and Exchange Commission on September 9, 2016).
10.3	Amendment, dated as of October 11, 2016, to Amended and Restated Cancer Genetics, Inc. 2011 Equity Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's current report on Form 8-K, filed with the Securities and Exchange Commission on October 12, 2016).
31.1	Certification of Principal Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a) promulgated under The Securities Exchange Act of 1934, as amended *
31.2	Certification of Principal Financial Officer pursuant to Rules 13a-14(a) and 15d-14(a) promulgated under The Securities Exchange Act of 1934, as amended *
32.1	Certifications of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of The Sarbanes-Oxley Act of 2002 **
32.2	Certifications of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of The Sarbanes-Oxley Act of 2002 **
101	The following materials from the Registrant's quarterly report on Form 10-Q for the quarter ended September 30, 2016, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheet at September 30, 2016 (unaudited) and December 31, 2015, (ii) Consolidated Statements of Operations for the three and nine month periods ended September 30, 2016 and 2015, (iii) Consolidated Statements of Cash Flows for the nine month periods ended September 30, 2016 and 2015 (unaudited) and (iv) Notes to Consolidated Financial Statements (unaudited)

* Filed herewith.
** Furnished herewith.